

AR04

Alberta Eastern Gas Limited **AEG**

**ANNUAL REPORT 1975**  
YEAR ENDING JUNE 30, 1975





## HEAD OFFICE

515 Barron Building  
610 Eighth Avenue S.W.  
Calgary, Alberta T2P 1G5  
Telephone 261-7040

## DIRECTORS

W. J. Bushnell, Toronto, Ontario  
R. A. McCullough, Calgary, Alberta  
A. D. Rogan, Calgary, Alberta  
F. G. Vetsch, Calgary, Alberta  
John T. Wood, Calgary, Alberta

## OFFICERS

F. G. Vetsch, President and Chief Executive Officer  
R. A. McCullough, Vice-President and Treasurer  
A. D. Rogan, Vice-President Production  
W. G. Fyfe, Secretary

## TRANSFER AGENTS

Montreal Trust Company  
Toronto, Calgary  
Vancouver, Regina  
Winnipeg, Montreal

## AUDITORS

Thorne Riddell & Co.

## BANKERS

Canadian Imperial Bank of Commerce  
The Royal Bank of Canada

## LISTED

Toronto Stock Exchange  
Alberta Stock Exchange  
Montreal Stock Exchange

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**THE ANNUAL MEETING** of shareholders will be held in the Lakeview/Mount Royal room of the Calgary Inn at Calgary, Alberta on Thursday, October 30, 1975, at 10:00 a.m.

**COVER:** Historic Milk River gas well, Orr Suffield 11-34-14-9, was drilled in 1911. It was the sole gas supply well for the Village of Suffield, Alberta from 1912 to late 1974. It was abandoned in 1975 because of mechanical problems. The Company participated in drilling a replacement well. Painting by Richard A. Freeman, Peachland, B.C.



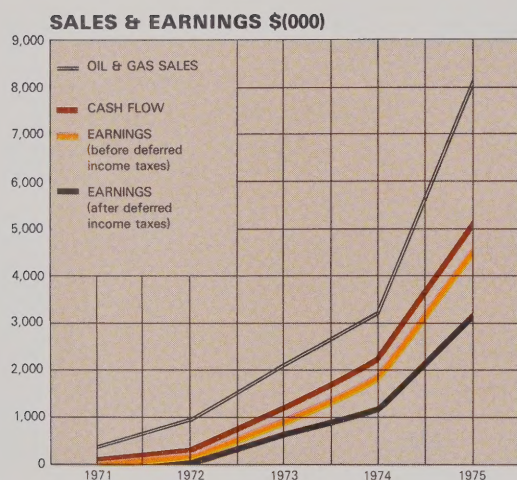
## ANNUAL REPORT TO JUNE 30, 1975

### HIGHLIGHTS

	1975	1974	1973	1972
<b>PRODUCTION</b>				
GAS — Billions cubic feet	<b>15.81</b>	13.39	10.98	5.94
— Millions cubic feet per day	<b>43.31</b>	36.68	30.07	16.30
OIL — Barrels	<b>9,643</b>	10,697	9,894	1,530
— Barrels per day	<b>26.4</b>	29.3	27.1	42
<b>ACREAGE</b> (000 acres)				
GROSS	<b>1,234</b>	1,055	1,084	885
NET	<b>630</b>	532	519	477
<b>WELLS DRILLED</b> (cumulative)				
GROSS	<b>650</b>	519	409	347
NET	<b>514</b>	427	360	307
<b>FINANCIAL</b> \$ (000)				
SALES	<b>8,117</b>	3,193	2,114	979
CASH FLOW from operations	<b>5,153</b>	2,268	1,247	263
EARNINGS before deferred income tax	<b>4,510</b>	1,879	984	104
NET EARNINGS	<b>3,176</b>	1,188	665	62
<b>PER SHARE</b> (dollars)				
CASH FLOW from operations	<b>1.03</b>	0.46	0.28	0.07
NET EARNINGS	<b>0.64</b>	0.24	0.15	0.02



## TO THE SHAREHOLDERS:



For the first time in the Company's history, shareholders will note a substantial emphasis on exploration and development outside of its traditional shallow gas operations in Southeastern Alberta. You are invited to read the special sections detailed below under the separate headings of Exploration and Production. Although considerable acreage remains to be drilled and connected in our traditional area, by Autumn of 1975 all of the necessary compression and processing facilities will have been installed to produce the area through its lifetime. In the fiscal year starting July 1, 1975, over half of the Company's capital budget will be spent on land acquisition, exploration and development in new prospects. This change in emphasis is encouraged by a gradual change in the political climate involving both Federal and Provincial governments, including reduced royalty and income tax levels and more positive policies related to short and long term oil and gas pricing.

Two factors remain which will tend to restrain optimum Company progress, namely:

- (i) The Province of Saskatchewan continues to follow a policy of importing its new gas requirements from Alberta, leaving Saskatchewan potential reserves shut in without a market. The Company holds about 200,000 net acres in Southwestern Saskatchewan which are awaiting gas markets and development.
- (ii) Most of the Company's gas reserves on Crown lands in southeastern Alberta are classified as "old gas" for royalty purposes. We regard the "old gas" royalty rate as excessive for most shallow gas deposits. Fortunately, about 75% of the Company's present production in this area is from freehold lands, which are subject to lower royalties.

We are pleased to report excellent progress in the past fiscal year with dynamic growth in cash flow and earnings resulting from gas price increases and increased producing levels.

Gas sales in 1975 fiscal year rose to 43.31 Million cubic feet per day (Mmcf/d) from 36.68 Mmcf/d in 1974, an increase of **18%**.

On November 1, 1974, the gas price for most of the Company's production rose to 60c per thousand cubic feet (Mcf). January 1, 1975, saw a further increase of 6.4c per Mcf representing a producer share from the export border

price of \$1.00 per Mcf, providing a total field price of 66.4c per Mcf effective through the end of the fiscal year until August 1, 1975.

The noted price increases and production gains resulted in cash flow growth of **127%**, from \$2,268,000 in 1974 (46c per share) to \$5,153,000 in 1975 (\$1.03 per share). Earnings after provision for deferred income tax rose from \$1,188,000 (24c per share) to \$3,176,000 (64c per share) an increase of **167%**.

In the fiscal year 1976, which commenced July 1, 1975, we expect production growth of about **15%** and the following field gas price changes resulting from increased export price flow back and contract price redetermination:

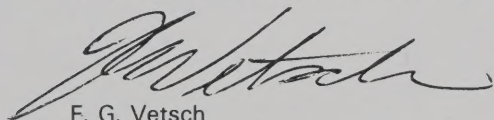
- (i) Effective August 1, 1975, about 75 cents per Mcf.
- (ii) Effective November 1, 1975, about 95 cents per Mcf.

As a result of these projected changes, we expect cash flow and earnings to approximately double in fiscal 1976, ending June 30, 1976.

Exploration and Production sections of this report, which follow, provide some detail of important developments which are expected to have economic impact on the Company in the future beyond fiscal 1976. The most notable is the Company's substantial involvement in the northern Alberta Bluesky shallow gas play.

The Company continues to enjoy the fine cooperation and support of all of its employees and for these efforts, the Directors are most grateful.

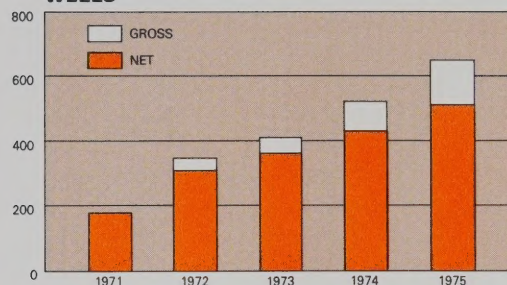
On Behalf of the Board of Directors,



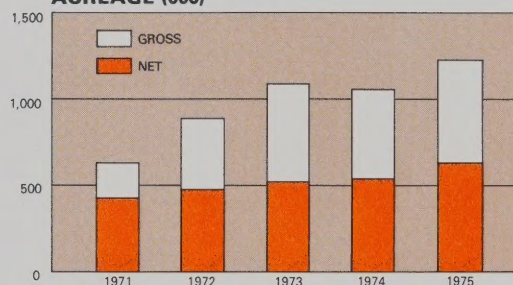
F. G. Vetsch  
President & Chief Executive Officer

Calgary  
September 24, 1975

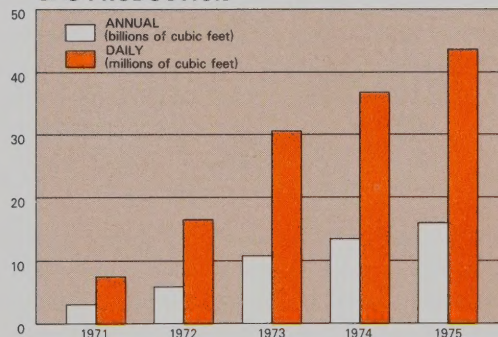
#### WELLS



#### ACREAGE (000)



#### GAS PRODUCTION

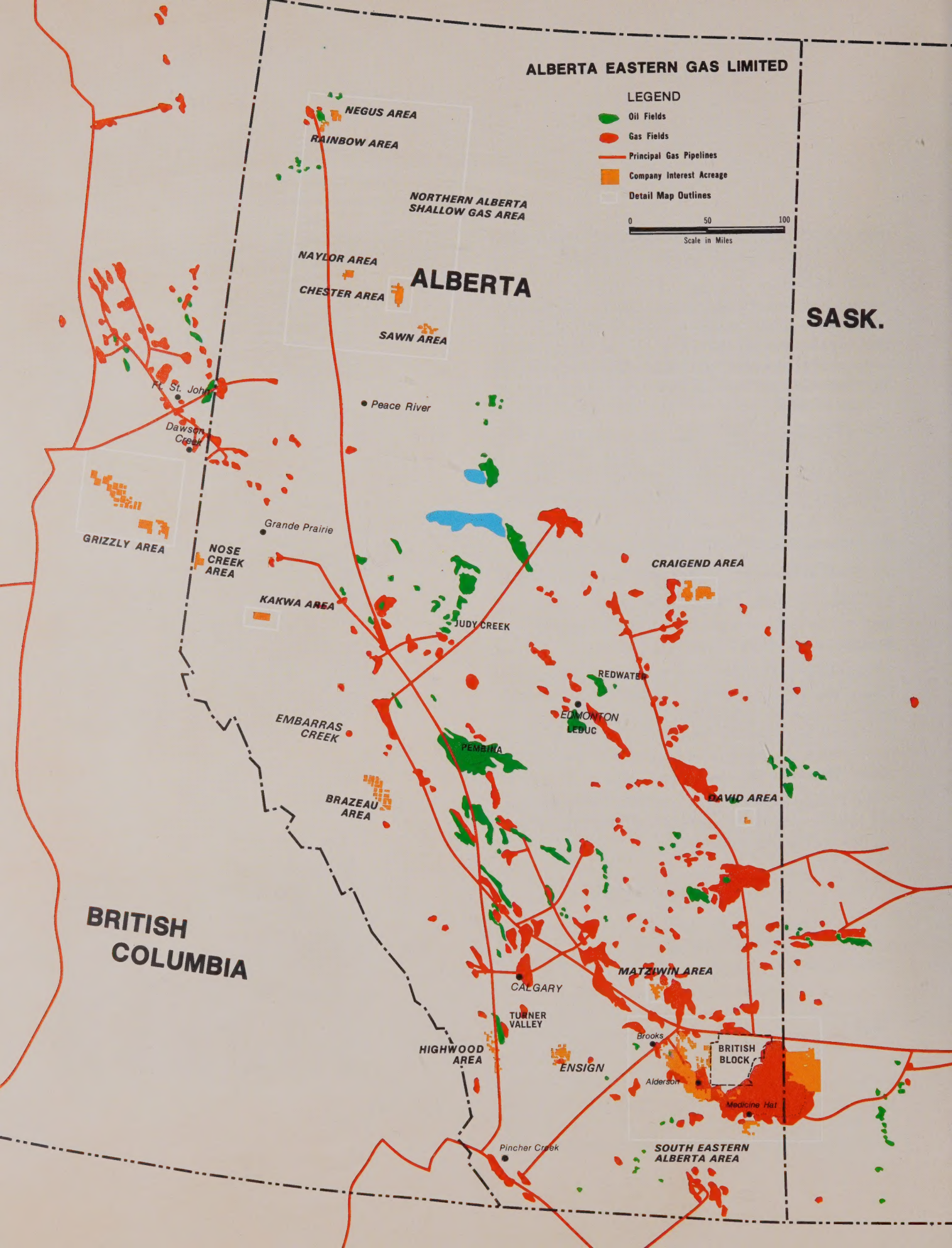
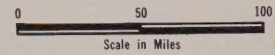




# ALBERTA EASTERN GAS LIMITED

## LEGEND

- Oil Fields
- Gas Fields
- Principal Gas Pipelines
- Company Interest Acreage
- Detail Map Outlines





## EXPLORATION

### General

Exploratory activity continued to increase significantly during 1974-1975. The Company spent approximately \$1.5 million in exploratory ventures including drilling and land acquisition. Our 1975-1976 budget anticipates a further increase in exploration to approximately \$3 million. The company participated in sixteen exploratory wells during the year, which discovered one oilwell and five gas wells.

### NORTHERN ALBERTA

Almost all of Alberta Eastern's northern Alberta exploration has been confined to the shallow Cretaceous Bluesky gas sands. The trend covers a large portion of north-western Alberta and varies in depth from 700 feet to 2,500 feet.

In early 1975, the company participated in drilling four shallow exploratory wells on three separate prospects. Gas was discovered in two wells located 6 miles apart at Chester. An old well re-entered at Negus was an indicated gas discovery. The fourth well was dry and abandoned. The gas discoveries, as yet unevaluated, appear to contain significant gas reserves.

The company will continue to increase its activity in the northern Alberta shallow gas area and approximately twenty wildcat and delineation wells are planned for the 1975-1976 winter season.

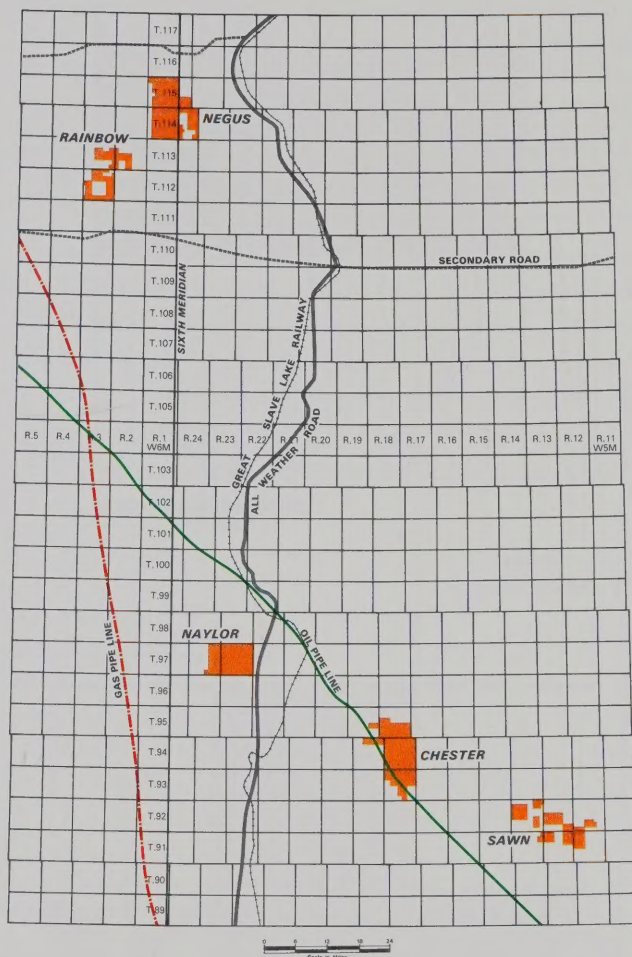
In addition to those plays already tested the following prospects will be drilled as soon as weather permits this winter.

**Rainbow** — Alberta Eastern Gas and partners purchased a 23,040 acre gas licence and plan to drill two wells on the lands this winter. Several successful gas wells have been completed in adjacent lands by other operators. The Company's interest is 37.5%.

**Negus** — Alberta Eastern Gas and a partner farmed-in about 30,000 acres of Petroleum and Natural Gas Reservation in this area and in addition, acquired an additional 13,000 acres of Crown land in the area at sales in early 1975. An old abandoned well was re-entered to evaluate shallow gas zones at the 700 foot level. This re-entry indicated a good gas flow but mechanical difficulties prevented complete evaluation. From two to six evaluation wells are planned for this prospect in early 1976. The Company's interest varies from 30% - 60%.

### NORTHERN ALBERTA SHALLOW GAS AREA

Company interest

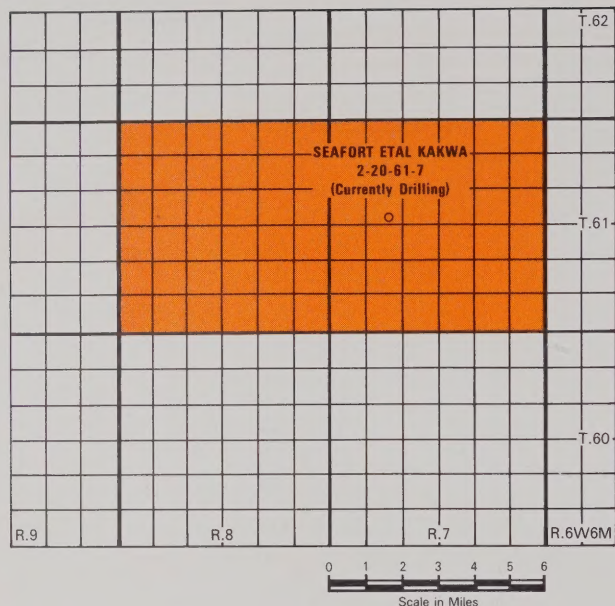


**Naylor** — A 31,360 acre Petroleum and Natural Gas Reservation was purchased by the Company in partnership with an associate in early 1975. A test well is planned for the 1975-1976 winter season. Alberta Eastern Gas holds a 60% interest in this prospect.

### Kakwa

The Company is paying 5% of the cost of a deep 18,000 foot test in west central Alberta to earn a 2.5% interest in the prospect. Alberta Eastern Gas and its partners farmed-in 46,080 acres covering a large, well-defined D-3 reef anomaly. The well, spudded April 5, 1975, is currently below 13,000 feet.

## KAKWA AREA



### LEGEND

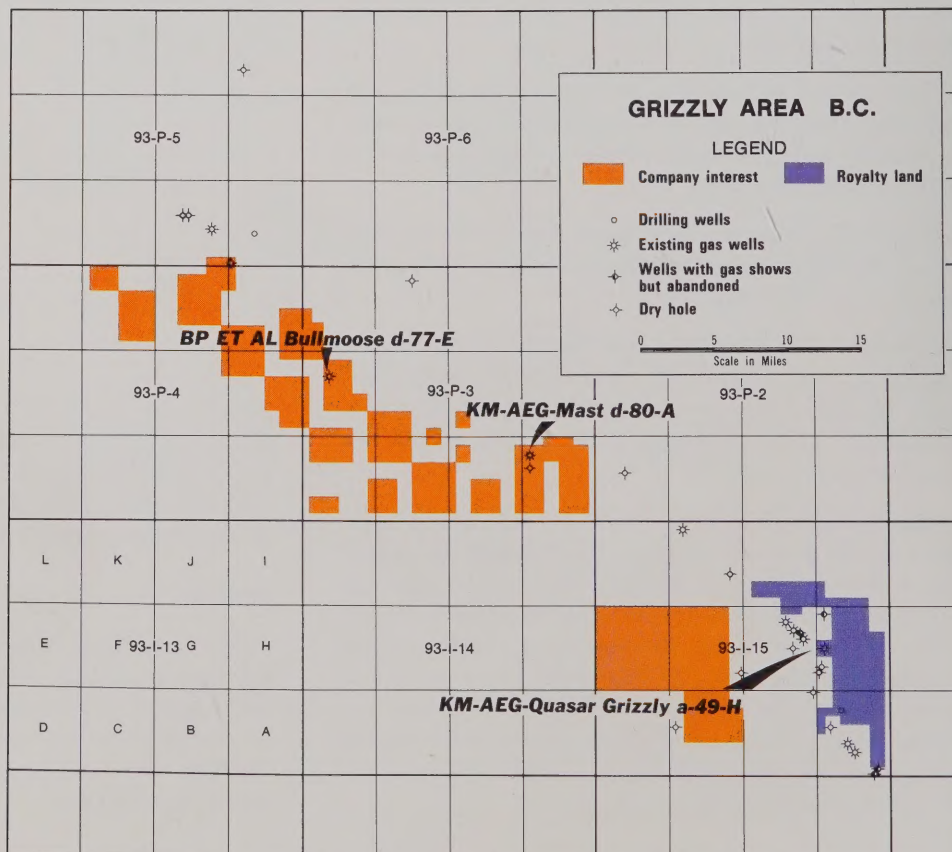
Company interest

## BRITISH COLUMBIA, Bullmoose-Grizzly

The BP et al Bullmoose d-77-E well was completed as a gas well early in 1975 and is currently suspended. Well information is being held confidential but suggests a gas accumulation of substantial size. Additional drilling is contemplated following testing of the d-77-E well. The Grizzly a-49-H well, in which Alberta Eastern Gas has a 15% interest, was completed in September, 1974 and remains as a suspended potential gas well. KM-AEG Mast d-80-A, was completed as a gaswell in 1973. Marketing of gas from Bullmoose and Grizzly areas is possible by late 1977.

## FOREIGN

Foreign exploration activity has been limited to the United States. In partnership with two other companies, Alberta Eastern has participated in several American land acquisitions and is currently evaluating a metallurgical coal prospect in Gunnison County, Colorado.





## PRODUCTION

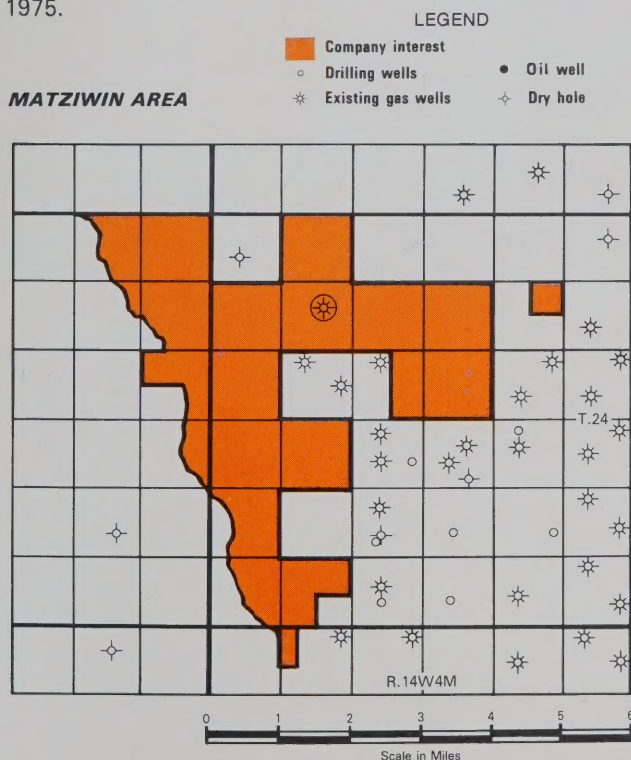
### General

Natural gas production averaged 43.31 Mmcf per day during the fiscal year, a gain of **18%** over 1974. All of this production was obtained from the Company's south eastern Alberta lands and projects which are detailed on the centre map.

### South Eastern Alberta

During the fiscal year, two new compressor stations were added to the system, namely, the North Tilley Station in the Tilley Milk River Gas Unit and the Monogram Station in the Monogram Gas Unit. Each are capable of about 8 Mmcf/d. The Company's interest in the Tilley and Monogram Units are 80% and 30% respectively. These stations commenced operations in early 1975.

During the summer of 1975, a development program expected to cost about \$3,000,000 will be carried out to add new production capacity to the systems. This program is expected to result in maintaining producing rates throughout the area and to double the capacity of the Monogram Unit. In total, Company production for fiscal 1976 is expected to increase by about **15%** over fiscal 1975.



### Matziwin Area

The insert map below, left shows lands acquired by the Company in 1973 in which the Company working interest is 100%. Adjacent industry developments indicate that the area is potentially productive from Milk River, Medicine Hat and possibly Second White Specks zones. The Company drilled and completed one successful Milk River-Medicine Hat well in 1973. Development of about 3 Mmcf per day is planned for mid-1976.

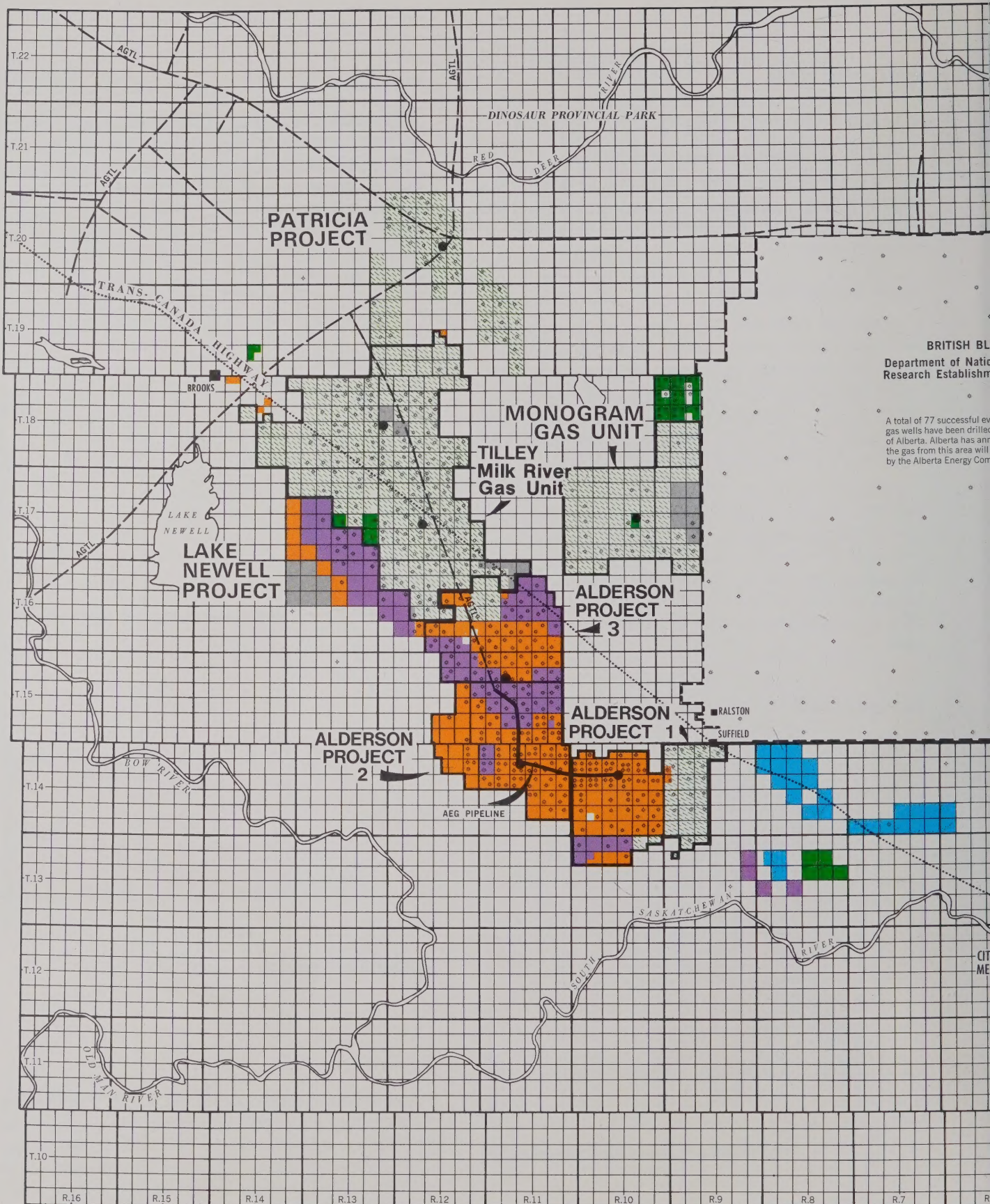
### DAVID AREA



### David Area

The Company holds rights of 50 to 100% working interest in three sections of land, shown on the insert map above. The Company drilled a test well in Lsd.15, Sec. 26-40-3-W4M in March 1975, which was completed as an oil well in the Wainwright Sand. Two option wells, which

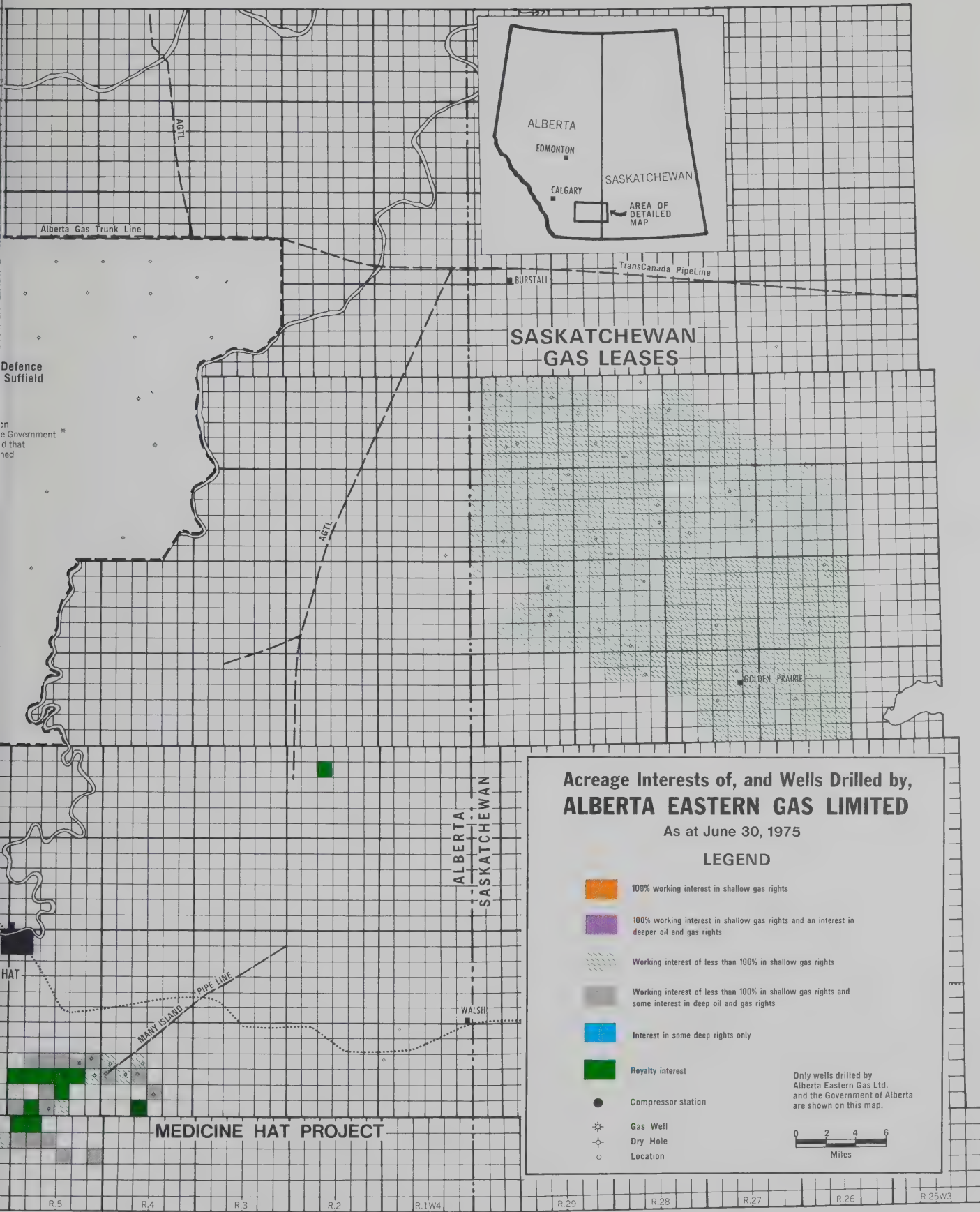




BRITISH BL  
Department of National  
Research Establishment

A total of 77 successful evaluation  
gas wells have been drilled  
of Alberta. Alberta has and  
the gas from this area will  
by the Alberta Energy Commission





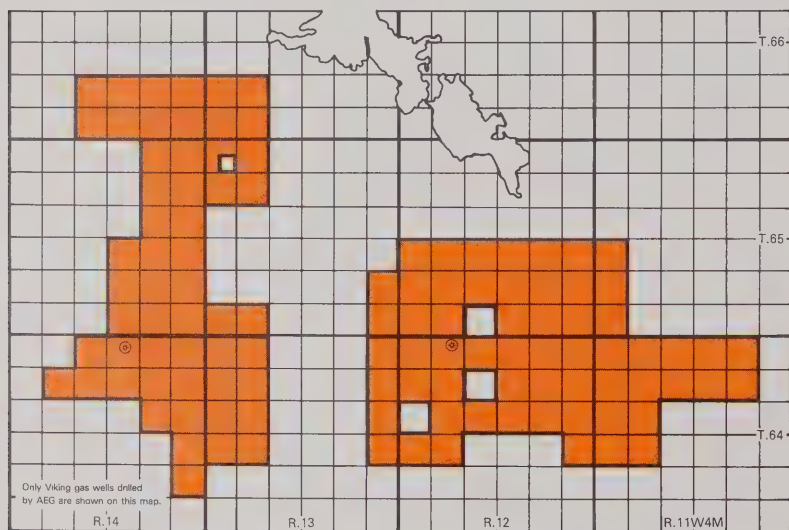


were drilled on adjoining sections, were dry. The discovery well is on steady production and, depending upon longer term evaluation, further development drilling may be carried out.

### Craigend Area

The Company and a partner acquired 72,160 acres of Crown lands in the Craigend Area of northeast Alberta, illustrated in the map below, and drilled two successful Viking Sand gas wells which are currently under test and evaluation. Further drilling is anticipated and a market connection by late 1975 is expected if justified by results. The Company's interest is 50%.

#### CRAIGEND AREA

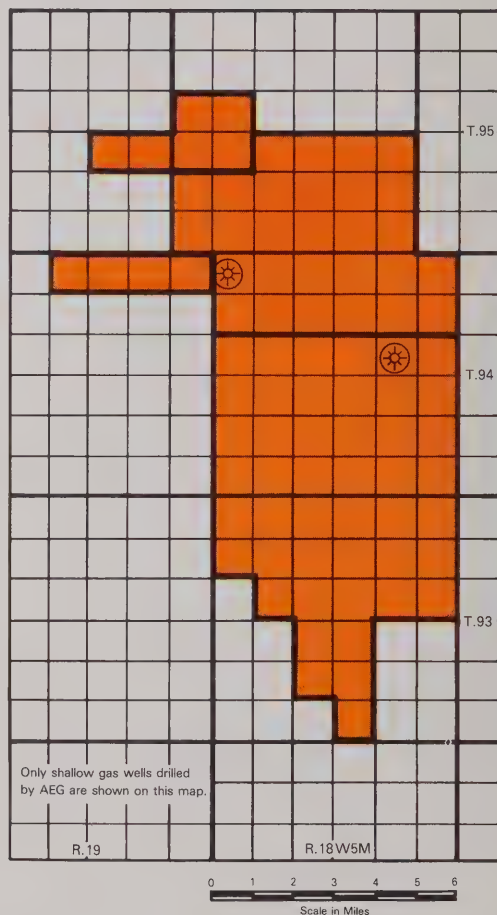


LEGEND  
 Company interest  
 Existing gas wells

### Chester Area

The Chester area of northern Alberta illustrated in the map below is part of the northern Alberta shallow-gas play described in general in the Exploration Section of this report. Two significant gas discoveries were made by the Company in early 1975, and an active earning and delineation program of about six wells is planned for winter of 1975-76. The Company's working interest varies from 30% to 60%.

#### CHESTER AREA





Balance Sheet
Statement of Earnings
Statement of Changes in Financial Position
Statement of Retained Earnings
Notes to 1975 Financial Statements
Auditors' Report







## Liabilities

	1975	1974
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities. ....	<b>\$ 1,869,053</b>	<b>\$ 919,919</b>
<b>DEFERRED INCOME TAXES</b> (note 1). ....	<b>4,087,475</b>	<b>2,753,419</b>

## Shareholders' Equity

### CAPITAL STOCK (note 2)

Authorized		
7,500,000 common shares of no par value		
Issued		
4,986,500 (1974 - 4,975,500) shares .....	<b>10,703,100</b>	10,656,500
<b>RETAINED EARNINGS</b> .....	<b>6,706,371</b>	<b>3,530,251</b>
	<b>17,409,471</b>	<b>14,186,751</b>
	<b>\$23,365,999</b>	<b>\$17,860,089</b>





## Alberta Eastern Gas Limited

### Statement of Earnings

year ended June 30, 1975

	1975	1974
<b>REVENUE</b>		
Sale of gas and oil production.....	\$8,116,782	\$3,193,017
Less: Royalties .....	1,741,504	470,223
	6,375,278	2,722,794
Interest.....	102,115	253,753
Other income.....	—	129,469
	<u>6,477,393</u>	<u>3,106,016</u>
<b>EXPENSES</b>		
Production.....	821,574	614,588
Freehold mineral tax .....	166,952	—
General and administrative .....	283,867	219,006
Engineering and consulting.....	41,642	3,959
Interest.....	9,705	—
Depletion and depreciation.....	556,616	372,307
Unproductive development and exploration .....	86,861	17,305
	<u>1,967,217</u>	<u>1,227,165</u>
<b>EARNINGS BEFORE INCOME TAXES.....</b>	<b>4,510,176</b>	<b>1,878,851</b>
Deferred income taxes (note 1) .....	1,334,056	690,371
<b>NET EARNINGS.....</b>	<b><u>\$3,176,120</u></b>	<b><u>\$1,188,480</u></b>
<b>EARNINGS PER SHARE,</b>		
based on weighted average number of		
shares outstanding during the year.....	<u>64c</u>	<u>24c</u>





## Alberta Eastern Gas Limited

### Statement of Changes in Financial Position

year ended June 30, 1975

	1975	1974
<b>SOURCE OF WORKING CAPITAL</b>		
Operations		
Net earnings .....	\$3,176,120	\$1,188,480
Add charges not requiring working capital .....	1,977,009	1,079,983
Flow of funds from operations .....	5,153,129	2,268,463
Issue of capital stock .....	46,600	48,300
Disposal of properties .....	51,026	84,000
Other .....	323	26,422
	5,251,078	2,427,185
<b>APPLICATION OF WORKING CAPITAL</b>		
Property, plant and equipment .....	7,570,556	3,805,964
<b>DECREASE IN WORKING CAPITAL .....</b>	<b>(2,319,478)</b>	<b>(1,378,779)</b>
<b>WORKING CAPITAL AT BEGINNING OF YEAR .....</b>	<b>2,254,423</b>	<b>3,633,202</b>
<b>WORKING CAPITAL (DEFICIENCY) AT END OF YEAR .....</b>	<b>\$ (65,055)</b>	<b>\$2,254,423</b>

### Statement of Retained Earnings

year ended June 30, 1975

	1975	1974
<b>RETAINED EARNINGS AT BEGINNING OF YEAR .....</b>	<b>\$3,530,251</b>	<b>\$2,341,771</b>
Net earnings .....	3,176,120	1,188,480
<b>RETAINED EARNINGS AT END OF YEAR .....</b>	<b>\$6,706,371</b>	<b>\$3,530,251</b>





## Alberta Eastern Gas Limited

### Notes to 1975 Financial Statements

#### 1. ACCOUNTING POLICIES

The company follows the full cost method of accounting whereby all costs of exploration for and development of its gas and oil reserves are capitalized by project area. Costs associated with producing areas are amortized using the unit of production method based upon estimated recoverable reserves of gas and oil within each project area as determined by the company's engineers. If exploration activities within a project area prove unsuccessful, costs accumulated therein are written off against earnings.

The company provides for deferred income taxes to the extent that current income taxes are reduced or eliminated by claiming capital cost allowances and exploration and development costs in excess of the amounts provided for depreciation and depletion in the financial statements.

#### 2. CAPITAL STOCK

During the year, the company issued 11,000 common shares for \$46,600 on exercise of employee stock options.

At June 30, 1975, 96,000 common shares were reserved under stock options granted to employees. The options are exercisable until 1979 in varying amounts at \$4.08 to \$5.85 per share.

#### 3. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Direct remuneration paid during the year to directors and senior officers totalled \$199,253, including \$2,100 directors' fees.

## Auditors' Report

#### To the Shareholders of Alberta Eastern Gas Limited

We have examined the balance sheet of Alberta Eastern Gas Limited as at June 30, 1975 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at June 30, 1975 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta  
August 13, 1975

THORNE RIDDELL & CO.  
Chartered Accountants





Alberta Eastern Gas Limited 

ANNUAL REPORT 1975